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THE SELECTION OF ADVERTISING MEDIA

A. M. Miller

THE selection of advertising media involves some relation to practically every factor of marketing. It is therefore not possible to establish sound principles of media selection through the study of media alone.

Consequently it will be necessary in this article to state some of the more important marketing factors, sketch the relation of these factors to media selection, and indicate correct procedure in appraising individual media and classes of media.

The principal marketing factors to be considered in the selection of media are:—

1. The character of the merchandise
2. The price of the merchandise
3. The distribution area of the merchandise—actual and possible.
4. The distribution channels
5. The volume of sales—actual and possible
6. The market position of the merchandise in relation to competitive products.
7. The timing of the advertising program.
8. The sum of money available for space purchasers—in other words the size of the space budget

Let us consider briefly how these marketing factors may influence the selection of media. In doing so we cannot do more than indicate the nature of the problem in each case as space will not permit exhaustive treatment.

Obviously, *the character of the merchandise* is one of the most important factors in determining media selection. For instance, a well-known soup gives national magazines the major place in its media lists, and also makes an extensive use of colour-rotogravure in the week-end newspapers and of billboards. The determining factor in this case is the obvious association of colour with delicious flavours and the importance

of colour in stimulating appetite. Hence the wise choice of media which lend themselves to colour treatment.

Another food product—a well-known brand of tea—makes use of frequent insertions of small size in all classes of printed media, supplemented by outdoor display. The copy consists mainly of the package and the name with an almost entire absence of "reason why" copy. Here the choice is sound, as the main task of the advertising is to repeat the name and display the package so insistently that selection of this particular tea brand from the merchant's shelves becomes almost automatic on the part of the purchaser.

The importance of *the price of the merchandise* in determining media selection lies in the fact that the number of possible buyers decreases as the price of the merchandise increases. The tendency should be therefore to select mass media for goods which tend towards the lower end of the price scale and class media for goods which tend toward the higher end of the price scale. It should be remembered, however, that the advertising of a class product cannot always be confined safely to class media alone. This is particularly true in the case of merchandise which confers prestige upon its owners—since this prestige depends upon the general recognition that possession of the merchandise does confer distinction. For instance, the only two high-priced motor cars which have maintained a substantial volume of sales over a long period have consistently used mass media as well as class media.

The distribution of the merchandise will obviously determine whether local and sectional media or national media shall be used. National magazines are economical and effective for the advertising of nationally distributed goods, provincial magazines for goods confined to provincial distribution, and newspapers, billboards and radio for goods confined to local distribution. Similarly, farm magazines and newspapers are ideal for goods appealing only to farmers; trade and technical magazines may be effective for goods appealing to the trades served by the editorial content of the respective trade media.

Nationally distributed products of wide appeal may, of course, make effective use of all classes of media, but the relative value of each media class can only be determined by careful and exhaustive analysis of the product and its market.

The *distribution channels* through which the merchandise flows to the ultimate consumer may influence media selection to a marked

extent. For instance, merchandise which is marketed through exclusive dealers or a limited number of specialized outlets requires the use of local media in order to "tie up" the dealer's name with the national advertising. Automobiles, expensive electrical goods, branded furniture and "specialty" merchandise generally fall into this classification. "Pick-up" goods such as tobaccos, food products, patent medicines, etc., do not require local "tie-in" except in a few cases in which distribution may be confined to a limited group of retail outlets. For "pick-up" goods the space buyer's task is to get the greatest mass of effective coverage at the lowest cost.

Goods which do not require consumer acceptance but are sold only to merchants for repair, blending, or for use in the merchant's operations exclusively may be advertised solely through trade and technical publications.

The *volume of sales—actual and possible,* will be an important factor in determining the extent of the list of media and the size, frequency and character of insertions. Where marked increase in sales volume is sought the media list may be extended beyond the point justified by actual sales volume.

The *market position of the merchandise in relation to competitive products* must be considered as of great importance not only in deciding the space-buying policy but in determining the entire advertising and merchandising program.

Obviously a product which is in the nature of a monopoly may ignore all considerations except that of buying the largest amount of effective coverage at the lowest possible price.

The same is largely true of a product which has achieved powerful market dominance as the task of advertising such a product is to maintain its position rather than to increase sales.

Buying space for a product which is fighting from behind to attain a substantial position in a highly competitive market is a materially different task. For such a product and also for a new product being introduced dominant attention must be attained at all costs.

In order to obtain dominant attention it may be necessary to confine the media list to a strictly limited number or a limited geographical area. The alternatives are usually to weaken the advertising attack by spreading it out thinly over a broad list, to load the product with an excessive advertising cost and thus weaken it competitively, or

to burden the capital resources of the company with excessive promotion expense.

The *timing of the advertising program* will exclude certain classes of media when there is necessity for rapid action between the conception of the advertising message and its presentation to the public. The closing dates of some media which are often from fifteen to forty-five days prior to date of issue exclude these media from use in programs which have to be executed within a few hours or days. The daily newspaper, the radio and the painted billboard are the only media of importance adapted to extremely quick action.

The *size of the space budget* is probably the most important factor in influencing media selection, inasmuch as it definitely determines what can be done as contrasted with what ought to be done.

The smaller the budget in relation to the task, the more difficult the problem of spending it, and the more important it becomes as a factor in determining what media shall be selected and how they shall be used. With a small budget it may be necessary to choose one class of media, or a limited group within one class, as the only means of obtaining the space-size and frequency of insertion necessary to carry the advertising message to the audience selected.

It should be remembered, however, that some of the most successful advertising programs have been based on the use of small space, and it is to be doubted that anyone has completely exhausted the possibilities of this type of campaign. One is inclined to believe that the gigantic advertising appropriations of the post-war inflation period have created an exaggerated opinion as to the necessity for large space and a wide list of media in every case.

Only a study of the individual product and market and an appraisal of the financial resources of the company marketing the product, however, will reveal the possibilities in each case.

Classes of Media

First let us make a brief estimate of the seven chief media classes: magazines, newspapers, farm magazines, outdoor display, trade and technical magazines, direct by mail and radio.

Each of these overlap to a greater or less degree. Each in its own way can be used to convey the advertiser's message to the buyer, yet each has distinctly different powers and merits and should be given the

position in the advertising program determined by analysis of the marketing problem.

Magazines have the distinctive merit of lending themselves to fine reproduction of the advertising message. They are adapted to every kind of art and engraving technique and in the majority of cases lend themselves to full colour illustration. Long life is another favourable factor peculiar to magazines among painted media. Then, too, it is to be presumed that magazines reach a higher intelligence on the average than newspapers and therefore a higher purchasing power per unit of circulation. Magazines have the further advantage of being read usually in a leisurely mood.

It is not possible, however, to reach the entire literate population through magazines since many people of good intelligence are not magazine readers, whereas practically every literate family, at least among the urban population, read some newspaper.

In Canada it is possible to reach a very large percentage of the approximately one million urban families through the use of three general magazines with a combined circulation well in excess of 500,000. Making allowance for duplication it is probable that 40% of the urban families in Canada receive at least one of these general magazines.

Then there are two women's magazines with combined circulations totalling well over 400,000.

It is to be presumed that the general magazine reaches both the male and female sides of the family to a greater extent than the women's magazine, although this factor has never been measured. On the other hand it is probable that the women's magazines have more influence in the sale of products appealing peculiarly to women.

There is also an important group of three class magazines of limited circulation which reach a substantial proportion of the families in the higher income groups across Canada.

A group of four ably edited French language magazines published in Montreal reach a substantial proportion of the buying power among Canadian French-speaking families.

It is therefore possible through the use of magazines alone to reach a dominating proportion of Canada's purchasing power—although it is not possible to ensure complete coverage through magazines alone.

For coverage of the farm population the above mentioned media should be discounted since it is not claimed that these media reach an appreciable proportion of farm homes.

Daily newspapers are the essential medium for the local advertiser and it is difficult to imagine any national advertiser desiring to achieve market dominance omitting the more important daily newspapers from the national campaign. They are the authoritative channels of local, national and world news and the mirrors of continually changing political and social opinion. Practically every urban family, and a large proportion of rural families, buys a daily newspaper. Of all media the daily newspaper approaches most closely to complete mass coverage.

They are peculiarly adapted to advertising campaigns which require rapid change of pace and direction. Because they are new every day they lend themselves to appeals which are devised to meet the rapidly changing moods, wants and desires of the buying public.

As a consequence of these very qualities, however, their life is short and the advertising messages appearing in them have to compete with news of absorbing interest and with a multiplicity of other advertising appeals. The national advertising message in newspapers must therefore be strong enough in interest and dramatic appeal to gain its share of attention from the day's news and the bargain appeals of local advertisers.

A handicap to the advertiser in the use of newspapers is the lack of uniform excellence in reproduction and the limitation of art techniques. There has been, however, marked improvement in this respect during recent years, due to advance in engraving technique and to better printing and paper.

Farm magazines and newspapers offer an effective and economical means of reaching practically all of the literate farm homes in Canada. They are the sole means of reaching this important market as general magazines do not reach a large proportion of farm homes and there are no reliable records as to the extent of farm coverage by daily and weekly newspapers.

Outdoor display in the form of billboards and painted bulletins in all major towns and along the highways offer a powerful and flexible but limited advertising medium. It has the advantages of continuous display, dominating size and colour. This medium is best suited for advertising in which repitition is the chief factor. It is an ideal medium for the display of the package, but does not lend itself readily to effective presentation of products which demand "reason why" copy. Even for such products, however, outdoor advertising can be made effective in presenting ideas to support a "reason why" campaign in other media.

For instance, billboards have been used with powerful effect in a motor car campaign for the purpose of suggesting power, style and speed.

Trade and technical magazines are theoretically the logical media for advertising to a trade or technical group, goods and services which appeal solely to that trade for resale or use. For this purpose the low per page cost gives them a strong appeal to the space buyer on grounds of economy.

For the advertising of goods which appeal to a trade or group whose members are merely a section of a wide general market the appeal of trade and technical media is not so obvious. In such cases the very debatable argument is used that a hardware merchant, for instance, is more susceptible to—let us say—a truck advertisement when that advertisement is presented in his trade publication, than when the same message is presented to him in a general publication. This may be provable, but such proof is yet to be seen.

One difficulty for the space buyer in selecting from this class of media is the difficulty of appraising the strength of the editorial appeal to trades with which the buyer is not familiar. The writer, for instance, should be capable of estimating editorially an automobile publication but would be quite at a loss in estimating the value of a builders' publication to the building trade. There is great need for a study of Trade and Technical Journals which would make sound editorial appraisal of them available to all space buyers interested in this class of media.

Direct mail advertising is a medium of such extreme diversity that an adequate estimation of its many uses would require volumes of analysis and comment. Suffice it to say here that it is a medium of great power and extreme flexibility. There is no possible kind of merchandising in which it cannot be used in some manner. There is no known art, engraving or printing technique which is not available to this medium. It has the merit that it is the most easily tested form of advertising. In most cases it can be tested by direct results.

The Space Buyer's Measuring Rods in Appraising Individual Media.

Briefly, these are circulation and rate comparisons, estimation of editorial appeal, and testing for results.

The milline rate comparison is the space buyer's most effective tool in appraising publications. For the benefit of the uninitiated, the milline rate of a publication is the cost of circulating one line a million times. The milline rate of a publication with 100,000 circulation and a rate of

ten cents a line would be $100 which would be the cost of circulating one line in ten issues or ten lines in one issue of the publication.

The audits of the Audit Bureau of Circulations make the milline rate comparison possible since they furnish a uniform standard of authenticating the publisher's circulation statement and appraising the soundness of his circulation building methods.

It should be remembered, however, that the milline rate comparison is fully valid only for publications within a given group. In applying this measuring rod to publications within different groups—for instance a newspaper and a magazine—care should be taken to keep in mind the different qualities and merits of the individual groups.

A good example of how the milline measuring rod may be used in circulation and rate comparison is given in the appended analysis of daily newspapers.

The problem of circulation methods opens up a question which has been the subject of debates over a long term of years. The question of "sound" versus "forced" circulation is highly debatable. What constitutes "sound" circulation? The writer's personal view is that sound circulation is circulation which is held. The method of obtaining the circulation is unimportant in comparison with the ability of the editorial appeal to retain the subscriber by means of renewal.

Even this statement should be qualified by the remark that for certain kinds of advertising publications with high percentages of loss coupled with ability to obtain new subscribers in sufficient volume give more satisfactory results than more stable circulations.

Estimation of editorial appeal is highly important to the space buyer. This can be done in a number of ways. Here are some of them. A quick glance through as many issues as possible of each publication. Careful reading of at least one issue a year of the principal publications in each group. Make the acquaintance of the editors of important publications; find out their ideals, aims and views. Analyze the editorial formulae of the various publications. Examine all evidence offered showing reader response—correspondence, etc.

The subject of testing for results is far too broad for treatment here. It involves too many methods, angles, and controversies. There is a wide bibliography. The wise space buyer will study the subject sufficiently to determine for himself whether or not methods of testing are possible and profitable for the merchandise and the advertising program which are his concern.

We are aware that this sketchy outline of the problems involved in the selection of advertising media has barely scratched the surface of the subject and that many angles of it are barely touched or entirely omitted. It is our hope, however, that the alert executive will find here some suggestions which may guide him into more exhaustive research on his own account.

MILLINE COMPARISONS OF CANADIAN DAILY NEWSPAPERS HIGH, LOW AND AVERAGE OF GROUPS ACCORDING TO 1933 MILLINES

Newspapers	Circulation	Milline Rate	1933 5000 line rate
100,000 circulation and over Group			
Toronto Mail & Empire	104,547	2.19	.23
Toronto Star	210,156	1.09	.23
Average for Group		1.60	
75,000 to 100,000 Group			
Toronto Globe	83,227	2.76	.23
Vancouver Province	78,205	2.04	.16
Average for Group		2.40	
50,000 to 75,000 Group			
Winnipeg Free Press	61,502	2.60	.16
Vancouver Sun	69,005	2.17	.15
Average for Group		2.39	
25,000 to 50,000 Group			
Halifax Chronicle-Star	25,468	4.31	.11
Ottawa Journal Dailies	36,665	2.45	.09
Average for Group		3.18	
10,000 to 25,000 Group			
Victoria Colonist	10,003	6.49	.065
Montreal Herald	23,598	2.34	.055
Average for Group		4.51	
5,000 to 10,000 Group			
Quebec Le Journal	6,532	10.71	.07
Moncton Transcript	6,822	3.66	.025
Average for Group		5.67	
1,000 to 5,000 Group			
Prince Rupert News	1,497	20.04	.03
Brockville Recorder-Times	4,465	4.48	.02
Average for Group		9.06	

DIVIDEND STABILIZATION IN CANADA[1]

FRED W. P. JONES

PROBABLY at no other time in history has Canadian corporate dividend policy been so interesting. After an almost unbroken record of annual increases in the aggregate amount of dividends, disbursements have been decreased almost 50 per cent. from the peak year. This year was 1930 when $284,000,000 was paid out.[2] Despite the duration of the depression, however, some corporations, notwithstanding large annual deficits, have continued normal dividends. Other corporations have been forced to break dividend records of over forty years' standing.

All in all, this period is a logical one in which to study the arguments for and against the adoption of a policy of stable dividends. Dividend stabilization is a product of the last decade of corporate finance. It was advanced by leading financial authorities among whom were Mr. A. S. Dewing and Mr. E. E. Lincoln. These authors advised the retention of large amounts of surplus in good years so that regular dividends could be paid in times of depression.

This policy was said to have several advantages. It created a group of loyal stockholders who were investors rather than speculators. It made easy the raising of new capital. Dividend stabilization strengthened corporate credit. This made it easy to borrow at very favourable terms either by bonds or short term loans. The policy prevented a corporation's stock from rising to inflated levels during boom times and from sinking to absurd points in times of depression. Finally, those writers, with an eye to the social aspects of finance, advanced the policy of dividend stabilization as a means of eliminating the business cycle. This would be accomplished by the curtailment of purchasing power during good times and by stimulating it in times of depression.

It can readily be seen that the realization of these advantages would

1. This article is an extract from Mr. Jones' thesis "The Problem of Dividend Stabilization in Canada."

2. Compiled from corporate records.

bring great benefits to the corporations following such a dividend policy. Some grounds, however, exist for questioning these advantages. First, none of the writers so much as mentions possible serious dangers resulting from either the improper administration of this dividend policy or from too long adherence to it in times of unusual stress. Second, few of the writers advance any statistical proof for their statements. Third, dividend stabilization was a policy advanced during an era of steadily advancing prosperity.

Therefore, the purpose of this study is threefold. First, it aims to test statistically the advantages claimed for dividend stabilization. Furthermore, it aims to see if these advantages are being enjoyed by Canadian corporations. Second, it will seek possible dangers resulting from dividend stabilization. Last, it will seek to determine if this policy is now practical in the light of the great economic changes which have taken place since this policy was first advanced.

The first step in this study was to bring together all corporations in Canada which have been following a stable dividend policy. In Canada, there are thirty-one companies which have maintained steady dividends from 1920-1933. It was found that the industry with the greatest measure of stability was the oil refining and distributing industry. All of the major companies in this field have been following stable dividend policies while one or two of the smaller companies are rapidly reaching the point where their policy can soon be included in the stable class. The public utility, textile and food industries occupy second, third and fourth place from the viewpoint of stable dividends. Considered on a time basis, the Consumers' Gas Company and the Toronto Carpet Company have maintained dividends longest. The former has paid unbroken dividends since 1847, while the latter has been paying eight per cent. since incorporation in 1891.

Seventeen of the thirty-one companies have been maintaining dividends from surplus. As the payment of dividends from accumulated reserves is the essence of dividend stabilization, these seventeen companies furnished the most fruitful sources of research. The majority of the statistical studies were made by comparing the above companies with an equal number of companies paying highly fluctuating dividends. This latter group of companies was very carefully chosen. It was made up of companies operating in similar industries to those paying stable dividends.

The first statistical study made was the effect of stable dividends

upon the price of a corporation's stock. Supporters of the policy of stable dividends maintain that this method of disbursing income acts as a stabilizing force upon the price of a company's common stock. In other words, the ultimate value of a common stock will not depend as much upon earnings and general psychology as upon dividends.

None of the supporters of this theory proves his point by presenting a schedule of earnings behind these stocks. It might be possible that these stocks do not rise or decline as sharply as the general market because the earnings behind these stocks are more or less stable. In other words, the prices of steady dividend paying stocks may be stable merely because the earnings of this class of corporation are more or less steady. Therefore, a study was made to see whether stock prices of corporations paying stable dividends move as directly in line with their earnings as is the custom with common stocks. This study has been made by comparing the earnings and prices of seventeen stocks of companies paying a stabilized dividend with the earnings and prices of seventeen stocks of companies paying a fluctuating dividend. The period 1926-32 was studied.

This study revealed several facts. First, the results prove conclusively that a common stock moves in direct accordance with earnings and public sentiment rather than on the basis of dividends. It is true that in the years 1926 to 1929 the prices of stocks paying stable dividends did not move up as sharply as those paying irregular dividends, but the fact is that in the period 1926 to 1929 earnings of the stabilized companies did not advance as sharply as the other group of companies. Therefore, the reason for the smaller advance in the price of steady dividend paying stocks was stable earnings and not stable dividends. In the period since 1929 both classes of stocks have shown a great decrease in price. If the contention of those arguing for dividend stabilization is to be supported, one would naturally expect to find that the prices of the steady dividend paying group have not fallen off as sharply as the general market. This is true absolutely but not relatively, for, while the prices of the stabilized dividend stocks have not moved as low as the prices of the other group, neither have the earnings of the former group fallen off as drastically as those of the latter group. Therefore, it is maintained that the prices of stocks paying a stable dividend did not rise as high in 1929 or fall as low in 1932, not because of stable dividends, but because of less fluctuating earnings. This is important because it proves that the prices of stocks paying steady dividends move

just as closely in sympathy with earnings as do the prices of stocks paying irregular dividends.

A second fact brought out by this study is the fact that in periods of prosperity and depression, the stock prices of companies paying a fixed dividend tend to become more out of line with earnings than do the prices of stocks paying dividends in keeping with earnings. In 1928-29 the earnings of companies paying stable dividends tended to level off while those of the other group tended to mount precipitously. In the face of this, it is natural to expect that the stocks of the former group would tend to level off with earnings. On the contrary, in accordance with general market psychology, they tended to mount rapidly until they were in reality in a much more inflated position than companies whose stocks merely followed mounting earnings. Naturally, in the subsequent depression one would expect to find a very sharp decline from an inflated position to their true earnings position. This was amply proved by the investigation. Not only have these stocks fallen drastically but they have taken a much sharper drop than their earnings would warrant. This is an actual disadvantage.

By 1932, corporations paying stable dividends had begun to decrease the size of their annual deficits. In the other group, on the contrary, deficits were larger than ever before. In view of the fact that the former group had seemingly reached the bottom of the depression and also keeping in mind their continued dividends, one might expect to find much levelling off in the fall of their common stock price. No such situation exists. General market psychology has dragged these stocks down to an absurdly low position in view of more stable earnings. Thus, instead of the prices of stable dividend stocks being stabilized, they have actually been inflated in boom times and unduly depressed in times of uncertainty. General market optimism, therefore, has been a much more powerful force than stabilized dividends. Indeed, the effect of market psychology is an interesting sidelight uncovered by this study of earnings. Several corporations are earning more than they did in 1929, yet this potent force of market psychology is sufficient to cause their stock to sell on a lower basis. British American Oil is a highly interesting example of just this thing.

Several additional factors were discovered. Space permits only a brief mention of these. First, the disturbing effect of extra dividends was noted. Most companies with stable dividends have been paying large extra dividends. Thus, there was as great an element of uncer-

tainty, if not a greater, in these stocks as in the case of stocks paying fluctuating dividends. The effect of this has been to cause large changes in the prices of stocks with extra dividends in the period leading up to dividend declaration. Second, it was noted that the passing of a long established dividend has a disastrous effect upon the price of a corporation's stock.[1] Where dividends are stabilized over a long period, the stock becomes surrounded with an air of safety. The final passing of the dividend seems like the "crack of doom." As a result, "panicky" investors dump their stock. From these studies it can be said that it is stable earnings and not stable dividends which stabilize stock prices.

An examination was next made into the question of loyalty of stockholders. The creation of such a group of security holders was said to have great advantages in preventing stock manipulation and in the raising of new capital.

A careful enquiry into these factors, however, raises two strong objections. First, these arguments are largely advanced in theory, for there is no definite proof that the loyalty of stockholders is produced largely by stable dividends. Second, there is a possibility that the importance of a group of loyal stockholders as been overstressed. At this time it is proposed to study only one advantage of a group of loyal stockholders. This is the advantage of raising new capital. Loyal stockholders created by dividend stabilization are lauded for their aid in facilitating the raising of new capital. At the outset, however, it is worthy of note that in Canada, with three or four exceptions, it is not the companies paying regular dividends that are raising huge amounts of new capital. Rather, they are old conservative concerns which have been actually decreasing rather than increasing their capitalizations. Thus, the majority of concerns paying a stable dividend are not attempting to realize this advantage.

In Canada, the Bell Telephone Company and the Canadian Pacific Railway Company are nearly always cited as corporations which, by maintaining steady dividends, have been able to raise enormous amounts of new capital very easily. This fact is admitted. On the other hand, there are just as good examples of the success of the opposite policy. Shawinigan Water and Power Company, the Western Natural Gas, Light, Heat and Power Company, and the Dominion Gas and Electric

1. This was noted by examining C.P.R., Lake-of-the-Woods Milling and Sherwin Williams.

attribute the ease with which they have been able to raise capital to a varying dividend rate which has followed up profit increases with an advancing dividend rate. So successful has this policy been that at times enormous stock issues have been financed at bond yield prices. Certain American corporations have followed the policy of announcing an increased dividend just before the offer of a new issue of stock. In almost every instance, the "psychological" effect upon their stockholders has been great enough to cause an oversubscription of the issue. From these facts, then, it would appear that a variable dividend rate can be as potent an aid in financing as a stable dividend rate.

Furthermore, a corporation should recognize that they take on certain responsibilities if they raise capital on the strength of stable dividends. With the present fluctuating state of corporate earnings these responsibilities may prove onerous.

As stated above, dividend stabilization is supposed to aid a company in selling bonds on favourable terms. It would seem that the reasoning is slightly confused. For one thing, it is difficult to conceive what bearing dividend policy can have upon long term credit. If the policy of dividend disbursements is a mere reflection of earnings, it may appear that it has an effect, but one should recognize that it is the stability or fluctuation of corporate earnings which has the real effect and not the dividends. One has only to study the Price Brothers reorganization to realize the truth of this statement. This company was one which paid regular dividends but could not enjoy high credit because of its drastic changes in earnings and unsound management policies. Surveys were carried out in several fields on corporate earnings, dividends and bond prices. In every case, the same general conclusion was reached. This was that credit standing is dependent not upon dividend policy but upon the nature and size of the earnings supporting its dividend policy (neglecting at this time, of course, assets behind the bond). It is true that the corporations with the soundest credit may be the ones of stable dividends, but the credit is dependent on earnings and not dividends.

The above discussion leads quite naturally to a consideration of just what effect the retention or disbursement of earnings has upon corporate credit. This is a question of great importance which should now be considered. A corporation's greatest need for sound credit comes during times of business recession. In good times, the current earnings often supply the funds necessary, or in any event the prospects are sufficiently good to make borrowing easy. During periods of depression,

however, collections are falling off, inventories are frozen and the company is becoming hard pressed for liquid funds. Earnings are swept away so that fixed charges must be met out of liquid reserve assurance funds set up in times of prosperity. Certainly, if the management of a corporation, in a year when there are no earnings, pays the bond interest, and at the same time meets the preferred and common stock dividends, corporate credit will suffer. It means simply that unless business picks up, the length of time that fixed charges can be met is decreased by the amount of dividends paid. This point is nicely dealt with by Mr. W. F. Parsons, a Canadian student of corporate reorganizations. Mr. Parsons says, "The practice of paying dividends which are not earned by companies with substantial funded debts is fatal to their solvency if continued for any lengthy period. Whereas the payment of interest can be justified on the grounds of expediency, even if revenues are falling and the floating debt is increasing, dividend disbursements cannot be so regarded. Too frequently, unearned dividends are paid in the year just prior to the event of default. These policies have little to commend themselves, lead to a weakening of the general corporate position, and are evidence that the company is courting ruin."[1]

Furthermore, the banks as adavncers of short term credit would never countenance such a policy. It would be impossible for a corporation to borrow under the above circumstances for it would amount to borrowing the funds of the bank to pay dividends. Such a purpose could not be sanctioned by any sane banker.[2] Thus, it is difficult to see how stable dividends can strengthen credit during adverse times. In view of these facts it is evident that stable dividends do very little to strengthen corporate credit.

Brief mention will now be made of some of the dangers of too strict an adherence to dividend stabilization. As a means of ascertaining these dangers, certain vital portions of the corporate structure were examined. The first of these to be probed was corporate surplus. The importance of a sound surplus policy cannot be overestimated. By the re-investment of earnings, corporations expand from within. Water is squeezed out of the common stock. Surplus policy is particularly important in Canada because almost all of the corporations will have definite opportunities to expand within the next decade. Dividend stabilization,

1. Extract from the Quarterly Review of Commerce of the University of Western Ontario; Vol. 1, No. 1. "Some Phases of Corporate Reorganizations." W. F. Parsons.

2. Substantiated by conversation with two Canadian bank managers.

however, implies the payment of dividends whether earned or unearned. For this reason, it is fitting to ascertain what proportion of the net income of corporations following this policy has been reinvested over a period of years.

To make this study, a comparison was made of the amounts reinvested by stable dividend corporations and those with fluctuating dividends. The results of this study revealed that corporations following a policy of dividend stabilization reinvested only 10.3 per cent. of their net income over the period 1926-32. In the same period, the other group of corporations reinvested 20.4 per cent. Even in 1929 the corporations in the latter group held the advantage with a reinvestment of 46.3 per cent. as against 44.7 per cent. for the steady dividend class.

Several conclusions were warranted from this study. First, it is evident that in individual cases corporations paying stable dividends have seriously weakened their surplus positions. Six companies had considerably less surplus than in 1925. Two companies even had less than in 1923. This situation becomes even more alarming when one realizes that 1933 figures were not included. A second conclusion reached is that in the majority of cases corporations have set too high a base rate, increased dividends too readily or allowed their capitalizations to mount out of proportion to their earnings.

Seemingly, the corporations in Canada have disregarded a primary rule of dividend stabilization. This is the creation of a base rate well below average earnings. Just what are average earnings is well-nigh impossible to ascertain. This is but one of the difficulties attending the stabilization of dividends. Failure, however, to solve the difficulty endangers the surplus position of the corporations. The fact that the majority of Canadian corporations have not reached a successful solution points to a danger of dividend stability. This appears to demonstrate that a corporation should pay close attention to its surplus policy if dividend stabilization is not to weaken a corporation.

Dividends have a direct effect upon the liquid position of a corporation. For this reason it becomes important to ascertain just what effect dividend stabilization has upon the liquid position of a corporation. The ratio best adapted to bring out the above information is the ratio of liquid assets to tangible assets. It is well adapted because tangible assets provide a more or less permanent base upon which to measure changes in liquidity.

The ratios disclosed several interesting facts. First, the fact is

revealed that corporations paying out unearned dividends have placed themselves in a dangerous position. Their liquidity has decreased 51 per cent. since 1930 as against a net decline for corporations with a fluctuating dividend of 27 per cent. The former group of corporations have greatly weakened their working capital positions and will be greatly handicapped when returning prosperity demands the spending of large amounts of money to bring inventories and other assets to their normal positions. Several companies have actually pushed this policy to the point where their solvency is endangered.[1]

In the second place, the study revealed that companies paying stable dividends failed to follow a cardinal rule of dividend stabilization. They failed to build up liquid reserves during times of prosperity. In not building up liquid reserves these corporations run two risks. First, they run the risk of paying out permanent working capital in dividends. In many cases, inventories and receivables have been sacrificed at great discounts and the money disbursed in dividends.

If corporations are to pay stable dividends and not endanger their positions, they should adopt a sane policy. They should consider first of all that their working capital and their liquid funds available for dividends are two separate entities. The latter should be kept separate and built up to a high point during periods of prosperity and not allowed to become part of working capital. In good years, dividends may be paid from this fund, but under no circumstances should working capital be paid out, for to do so is to sap the very life blood of the organization. In the majority of cases, Canadian corporations have disregarded the above policy and followed the condemned course. Therein lies a grave danger of dividend stabilization. The Steel Company of Canada, and the F. N. Burt Company are to be commended for their sound attitude in the matter of liquidity.

In not building up liquid reserves a corporation runs a second risk. They risk falling into the unsound expedient of distributing a stock dividend when money runs short. This may seem an easy means of maintaining dividends but most corporations fail to realize that they have created a larger permanent capitalization over which future earnings must be distributed. If three or four dividends are paid in this manner the corporation may become permanently and dangerously over-

1. Maritime Telephone and Telegraph Company, Montreal Cottons, and Sherwin Williams Company.

capitalized. In the United States, there are many examples of this short-sighted policy.[1] In conclusion, it can be said emphatically that the failure of corporations with stable dividends to maintain liquid positions is a very serious charge against the policy of dividend stabilization.

Dividend stabilization has a direct effect upon the management policies of a corporation. Some executives feel that the maintenance of dividends acts as a tonic, forcing necessary economies. They say that maintenance of a regular dividend assists in the maintenance of earnings. If the dividend is passed, the net earnings are let down. There is no incentive to earn money.[2]

It is not proposed to challenge the opinion of these eminent authorities. It is felt, however, that an over-zealous management, which often holds many shares of the corporation's stock, may try to cut corners in their efforts to maintain dividends.

Depreciation is very closely wound up with the management aspects of dividend stabilization. There is no excuse for neglecting depreciation. Obsolesence, changing demand and lessened efficiency are at work all of the time. Under these circumstances, it is readily apparent that it is dangerous to neglect depreciation. Despite this, a survey disclosed the following unsound condition among corporations with stable dividends. One corporation had taken no depreciation since 1927. Six companies had taken none since 1929. Five of these companies were operating in industries in which the obsolesence factor is great. Eight companies showed depreciation rates three to four per cent. below even 1926 figures. While there might be some excuse for taking less depreciation than in 1929, there seems little reason for taking less than in 1926.

A large baking company is following a very unsound policy in order to resume dividends. They have written down the value of all depreciable assets so that smaller amounts could be provided for depreciation each year. Stable dividends could then be provided out of the earnings set free. This policy deserves condemnation, for if these assets are written down to present day deflated levels, any price rise will mean that insufficient depreciation has been provided. In reality, it amounts to a dividend from capital.

1. Electric Bond and Share is the most notable.
2. Mr. George J. Whelan, General Manager of United Cigar Stores. Extract from "They Told Barron." Pound and Moore; p. 224.

Contingency reserves are appropriations of surplus held against some sudden and unforeseen event. The presence of these reserves denotes a sound management. The absence of such reserves or the appropriation of these to pay dividends denotes a management that is courting ruin. Such a corporation faces the fact that any unusual event is liable to result in a book deficit which may threaten the solvency of the corporation. Moreover, it is particularly important for a concern paying a stable dividend to have a large contingency reserve. This is readily apparent when one realizes to what extent the ordinary surplus may have to be drawn upon to meet dividend charges, which means that this source cannot be depended upon to meet contingencies. Unfortunately, however, fourteen companies in Canada having a stable dividend had absolutely no contingency reserves. The Maritime Telephone and Telegraph Company and the Montreal Cottons Company both at one time had contingency reserves. These have recently been transferred to ordinary surplus and almost all paid out in dividends. One other concern, a textile company, had no other surplus than earned surplus. On the books of the company there is an item of good-will larger than the surplus, despite the fact that it is not the type of concern in which a large amount of good-will is justified. Dividends have been maintained despite this obviously unsound state of affairs. It is felt that the above facts indicate how unwisely and dangerously Canadian corporations are attempting to stabilize dividends.

It is now proposed to consider the relationship of dividend policy to labour policy. It seems doubtful that a concern by maintaining dividends and slashing wages can receive the most loyal and wholehearted co-operation of any corporation's most valuable asset—a loyal working force. The United States Bureau of Commerce has made a complete survey which shows that whereas wages up to December 31, 1932, were only 39 per cent. of the 1929 level, dividends were 48 per cent.[1] In Canada, dividends were in 1932, 108 per cent. of their 1926 level, whereas wages were only 82 per cent.

While these figures are interesting in showing how labour in general may harbour a grievance against shareholders, this thesis is concerned with just how Canadian concerns with stabilized dividends have acted. It was possible to obtain wage data concerning twenty-one of the companies paying stable dividends. Among these companies, one had in-

1. Bulletin of the U.S. Bureau of Domestic Commerce for January, 1934.

creased dividends and two had made small downward adjustments while the remainder had maintained dividends at 1929 levels. The startling fact was, however, that twelve of these companies had actually decreased wages on the average by 15 per cent. Of the remaining companies, six were actually making more money than before the depression and consequently had no reason to reduce wages.

What is even more startling, however, is the fact that only 21 per cent. of the companies had made any attempt to set aside pension or benefit funds. Moreover, four of the companies having a pension fund had either allowed it to become seriously depleted or had neglected to make any appropriations for it in the past four years.

It might be argued, of course, that labour had its chances during the last boom period and used it to force wages upwards while dividends remained stable. This argument has little weight, for two reasons. First, organized labour has never been strong enough in Canada to gain large wage increases. Second, the above argument treats labour as a mere commodity and not as a company's most valuable asset. One should always consider the psychological effect of the policy of dividend stabilization on this asset.

From these facts, it may appear that dividend stabilization from this aspect is being condemned. This is not so. Rather, it is an attempt to bring out the contrast between fluctuating wage payments and the stability of dividends. The present policy can yield little but disloyalty on the part of wage earners when they see their wages being reduced and their pension and benefit funds neglected. If dividend stabilization is to carry with it a loyal working force, pension schemes should be created. Reserves should be set aside out of which workers could be paid wages for plant rehabilitation and new construction during times of depression. Furthermore, it is maintained that if wages finally have to be reduced the reduction should be accompanied by a downward reduction in dividends.[1] If such a policy is neglected, disloyalty of the working force will follow.

As a result of the investigations made in this study of the policy of dividend stabilization, several things are at once apparent. First, and undoubtedly foremost, is that the policy of stabilizing dividends may do the company more harm than good if the policy is improperly administered or if it is carried too far. If a company is willing to prepare

1. As followed by Steel Company of Canada.

for dividend stabilization by building up large reserves, by setting a low base rate, by co-operation with labour and by adjusting its policy to preserve liquidity if necessary, the policy would be quite safe. Unfortunately, the majority of corporations in Canada following this policy have done just the opposite. Second, it would appear that the advantages claimed for stable dividends are largely non-existent. From the statistical studies made it can be seen that it has not had the desired effect upon the price of a stock. Credit has not been strengthened by dividend policy and the importance of a group of loyal stockholders has been overstressed. A common stock in a fluctuating industry will remain a speculative security in spite of maintained dividends. Third, it would appear from the studies made that there is no such thing as permanent stability of dividends except in a few isolated cases where earnings do not show any great change. But with these companies there is little need for dividend stabilization. As long as the average company continues to show great annual changes in earnings, there can be no permanent basis for dividend stabilization because a corporation does not know what reserves to set aside. The present depression has shown the folly of building up reserves on past experience. Sooner or later reserves will be swept aside and dividends of long standing will have to be passed. When this time comes the corporation creates more ill-will than if its policy had been kept in line with earnings.

In conclusion, a word might be said about investing in companies with stable dividends. It is readily apparent from the studies made that many corporations have greatly weakened themselves by adhering to their steady dividend policies. Therefore, it is not always best to invest in a company just because it has a stable dividend record. Investors should carefully appraise the situation behind that policy.

THE MANAGER FORM OF GOVERNMENT

K. G. CRAWFORD, M.A.

THE City Manager form of government has been a comparatively recent development. It started originally in the city of Staunton, Virginia, about twenty-five years ago. There are now in office over four hundred managers in the United States, a few in Canada and a few in other countries.

The City Manager plan of local government has ardent supporters and equally ardent opponents. The manager idea has derived a lot of kudos from the "company it keeps." The establishment of the manager form of government has often been the aim and slogan of those who are campaigning in the interests of efficient local government to replace a sometimes corrupt or sometimes merely stagnant established group which is in control. While this may be accepted as a compliment to the managerial form of government, it is also a source of weakness. In many cases, the fact that the manager is brought in to clean out the old system or as a result of the cleaning out of "the old gang" means that from the start he is opposed by a very definite, very powerful (even if temporarily dispossessed of power) and a politically skilful group.

The Manager form of government, which comes in a variety of forms, is supposed to bring the benefits of business administration to the assistance of what the business man usually feels is the ineptitude of governmental administration. It is a question just how much government has to learn from business in efficiency. It is true that particular units of government, at particular times, show a marked degree of inefficiency, but bitter experience in the last few years shows also that particular businesses, at particular times, have not weathered the storm, nor shown that prescience which marks the real business genius. It is of interest also to note that when the economic state of affairs becomes too chaotic, the business man does not hesitate to call upon government in its various forms for assistance and relief.

The Manager idea probably appeals to business men, not so much

because of increased efficiency or reduction in costs, or because he obtains more direct and effective action, as because it represents a form of organization which he understands and with which he is accustomed to work. As a matter of fact, the mere reduction of government expenditures or of taxation is not a sound measure of efficiency or good economy, as that result may be obtained by the lessening of some services rendered or the elimination of others. The criterion of efficiency in governmental affairs is not the absolute amount of money spent or the amount by which the expenditures are reduced, but rather how much value is received for every dollar expended. It is better to spend $10.00 of tax monies and get $10.00 of value than to spend $8.00 of tax monies and get only $6.00 in value.

The main idea of the managerial form of local government is that all administrative or executive functions should be exercised through and by the Manager and he alone is responsible to the Municipal Council. The Council, in turn, is responsible for policies and the Council alone is responsible to the electors for their policies and their execution through the Manager.

It is at this point that the managerial system is most vulnerable in actual experience. If the policies adopted by the Council are found to be unpopular with the electors, Councils are prone to blame the Manager for the policies. If a manager is brought in as a result of a reform movement, he is also in difficulties. With the turn of events, a number of the deposed members will in time return to office and make it their business to block the manager. If a manager is a forceful character, he is in danger of dominating his council and really determining policy. Many managers have not drawn the line between policy and administration successfully, with the result that they have been practically forced into politics to justify policies for which they have been responsible.

A manager should be removed entirely from politics and policy formation. That is a matter for the elected representatives and is the purpose for which they are elected. It is true that in some cases Managers have carried their policies to the electors and succeeded but this is really a negation of responsible government and is most strongly to be condemned.

The difficulties outlined above are well illustrated in a study of the City Managers in the United States by the Secretary of the International City Managers' Association. Discussing the "separations" of managers from their positions in 1931, it was stated that 53% were dismissals or

forced resignations. The reasons for the "separations" in the 67 cases were, "change of personnel of Council—25; consolidation of manager position with that of City Clerk, Engineer or other positions—10; resigned because council interfered with appointments—8; ousted because council wanted to exercise more control over administrative affairs and appointments—8; resigned to enter private business or to retire—8; ill health—3; resigned to run for public office—3; and manager plan abandoned—2." The result of the difficulties of the manager's position is that while his life may be a merry one it is most decidedly short, as we in Canada look on official life, for the aforementioned survey shows that for the four hundred and two city managers then in active service their term of office in the particular city they were then serving averaged four years and two and one half months. The average annual rate of turnover for the last six years was slightly over 14%.

The City Managers have made a distinct contribution to local government. In general, they may be said to have introduced greater efficiency and more "business like" methods into municipal government. They have helped to reduce the "red tape" of government. The City Managers, particularly in the United States, have contributed toward the placing of municipal employment on a professional basis and, through their Managers' Association, are developing a group of experienced, trained men who know their business and hold their position more by ability than diplomacy. This is particularly valuable in a country where many of the employed officials are chosen by popular vote and therefore liable to change with consequent lack of continuity in administrative policy. They have set up standards of performance in municipal services which tend to greater efficiency and economy. They are to a degree separating municipal appointments from local restrictions inasmuch as many managerial appointments are made on the basis of ability rather than residence. In many cases, managers who have proven successful in smaller cities are chosen for the office in larger cities.

Probably the greatest contribution of the Manager form of government has been to awaken the people to the possibilities of good government and the results which can be obtained if the effort is made.

In general, however, the Manager form of government would not appear to have any fundamental inherent virtue as compared with any other form of democratic government. The weakness of a democratic

form of government is not in the machinery, or the form, but in the people themselves. If the electors will apply themselves to a constant and intelligent watching of their elected representatives and the working of their organizations from day to day, rather than just at the time when they receive their tax notices and on election day, they will get results under almost any form of government. They will get good government, or whatever government they want, regardless of whether or not they have the managerial form or the common "garden variety" of municipal administration.

The electors are entitled to and will get just the type of administration the majority desire. The whole theory of democracy is based on the rule that the majority shall determine for the whole. The Manager form of administration or any other form will produce good administration if the majority want good administration. The Manager form of government will produce just as poor or bad administration as any other form if the majority want poor administration, or, to put it another way, if they prefer to endure poor administration rather than exert the effort required to see that the administration is improved. Government administration to-day is a very complex piece of machinery. The most efficient machine will produce poor results if inefficiently controlled or negligently supervised.

CURRENT EVENTS

ARTHUR G. DORLAND, PH.D.

The Stavisky Scandal in France and Some Possible Results

INTEREST during the past month or so has been centred upon France. For all those who are concerned about international peace and who believe in democracy, future developments in France are of the most serious consequence. The Stavisky Scandal has had both within and without the country wide-spread repercussions that leave the ordinary onlooker confused and vaguely fearful of the future. Does this upheaval indicate, as some fear, the collapse of democratic institutions in the last stronghold against Fascism on the Continent? Can the Third Republic survive this most recent assault?

While recognizing the seriousness of the present situation, it must be remembered that political currents in France move in cycles or epochs to the Left or Right and are frequently accompanied by violent political demonstrations which are not necessarily as dangerous as they may appear to the outside observer. The French people present some curious paradoxes. They are at once the most volatile and the most conservative of peoples; the most liberal and the most incurably individualistic and *bourgeois*. Thrift and the passion for economic security to accumulate reserves against the hazards of the future, characterize all classes of France more than any nation in the world. This means that while politically progressive and democratic, they are socially and economically conservative. On principle, therefore, the French voter generally supports the Left, until his pocket book is threatened; then with economic fear he turns again to the Right. Some one has said in this connection, that the Frenchman's heart is on the Left, but his pocketbook is on the Right. Always seeking security first and last, the French voter has feared principally two dangers. On the one hand, he fears the restoration of aristocracy, monarchy, a reactionary Church, and a dictatorship. On the other hand, he fears the danger of a social revolution against property. A coalition in French politics has usually been against

whichever of these two extremes is in danger of getting control. Thus the average Frenchman, while inclined to socialistic ideas in theory, in practice is apt to be conservative and individualistic. There are, therefore, no fixed and well organized political parties in France, but shifting groups gathered about some leader, uncertain, changeable and lacking in discipline. Every man votes alone, and often according to his fears—fears of the past or of the future. Consequently we find in France, Socialist groups of widely differing ideas and affiliations which really constitute a party of the Center, leaning to the Right or to the Left as occasion demands, and continually involved in a policy of shrewd political bargaining with one side or the other to remain in power. The necessity for this continual political bargaining is one reason for the widespread corruption of French politics, as well as an explanation of the instability of their governments which rarely last more than a few months. The French Press is also one of the most venial in the world. Consequently, public opinion that is manufactured, bought and paid for by the French Government, by economic interests or by foreign subsidies, is liable to change overnight as special interests may dictate.

In the election of 1932 France placed her confidence for the moment in the Left, composed principally of Radicals and Socialists. While comprising the largest individual group in the Chamber, however, the Radicals had no absolute majority in the Government, and so had to depend on the customary bargaining with the Neo-Socialist Center just at a time when the French people were demanding a strong and consistent policy. The financial difficulties of France, the unaccustomed necessity for rigid economies after an era of wasteful spending, and a growing uneasiness with respect to Germany, all helped to increase the feeling of mistrust against the government. Unfortunately the Stavisky affair was not an isolated incident, but was rather the culmination of a whole series of other scandals, moral, financial and administrative equally disquieting. This poisonous atmosphere of scandal and corruption immediately served to release all the forces of reaction in France, both from the extreme Left and from the extreme Right which alike are traditionally opposed to the Third Republic. Consequently the fall of the Chautemps Ministry in January 1934 after two short months of power, because of its failure to go to the bottom of the Stavisky scandal and to punish those who were responsible, and the continued failure of the succeeding government under Premier Daladier to clear up the affair, finally led to the creation, on February 8th, of the present National

Union Government under Premier Doumerge; but not before there had occurred bloodshed and serious disturbances both in Paris and throughout many parts of France.

The present Doumerge government is, therefore, a coalition government which contains six ex-premiers of France as well as representatives of almost every party from the extreme Right to the Neo-Socialists, though definitely excluding Royalists, Socialists and Communists. But while the present government is a coalition—in the sense that most French governments are coalitions—it is regarded as leaning quite definitely toward the Right and as having strongly reactionary tendencies. The Left committed a grave tactical error by the proclamation of a General Strike on February 12th by the General Federation of Labour—representative of the Syndicalist groups—which, while it failed to come off, provided the extreme Right with still another grievance against the existing Republican regime and Parliamentary system of government as hopelessly inefficient. In fact the Right is suspected of seeking to use the present political crisis to stampede the French people into some form of Fascist Dictatorship; while M. Chiappe—the former Prefect of Police who was dismissed by Daladier, or M. Tardieu—now a member of the present National Government—are suspected as the 'strong men' who are being groomed by the reactionaries for the role of Dictator. The newspapers of the Right moreover have been unusually bitter in their denunciation of the Republic and of the present system of parliamentary government. Significantly prominent in this campaign of defamation is the reactionary *La Liberté*, of which M. Tardieu is both the political editor and owner. Strongly backing this movement is the Church party led, it is alleged, by the Jesuits who have never abandoned their determination to revoke the Separation Law of 1905 and so restore the Roman Catholic Church once more as the official religion of the State. In fact, some French writers profess to see in the present situation a deliberate plot to destroy the Republic and French democracy, and to replace the present parliamentary system by some form of French Fascism or Dictatorship.

Whether this will be the result, no one at the moment can say. This at least is certain: the liberal *bourgeoisie* of France has for the moment surrendered to reaction, thereby creating an emergency which calls for heroic measures to purge the French parliamentary system of those maladies which have been sapping the vitality of the Third French Republic since its inception in 1870. It calls for a modern and amended

constitution; a parliament that works instead of simply obstructing; a free, clean Press; an adequately paid Civil Service; an incorruptible administration of Justice; a banking system operated for the public benefit, rather than for the promotion of special financial and political interests. Doubtlessly all the remaining democratic governments in the world—such as they are—would be safer against the danger of a Fascist reaction, if they too set their houses in order along these lines. It might even be suggested that what was sauce for the French goose, might also be sauce for the Canadian gander!

France, Germany and the Saar Plebiscite

Among the many questions that are disturbing France at the present in her relations with Germany is the problem of the final disposition of the Saar Valley, another problem bequeathed by the Treaty of Versailles to a distracted world.

It will be recalled that at the conclusion of the Great War, France, in accordance with a policy which goes back to the time of Richelieu and Louis XIV., demanded that her eastern boundary should be fixed at the Rhine, and that the ten thousand square miles of territory lying along the left back of the Rhine between Holland and Alsace should be taken from Germany and erected as one autonomous state. This policy which would have created another Alsace-Lorraine in Europe, while guaranteed by one of the secret treaties with Russia, was vigorously opposed by England and the United States, with the result that while France did not get what she wanted, nevertheless she obtained Alsace-Lorraine taken from France in 1870 by Germany; while Germany was also compelled to surrender the Saar Basin—an area of about 700 square miles adjacent to Lorraine—which was placed not directly under France but under a Commission of the League of Nations. This area was, however, to be included in the French customs boundary and its coal mines were handed over to France to compensate her for the destruction of her mines by Germany during the war. It was further provided that after a period of fifteen years the people of the Saar Valley should be allowed to settle by a plebiscite their future political status in one of the three following ways i.e.: (i) To re-unite with Germany. (ii) To unite with France. (iii) To continue under the League of Nations.

Until about a year ago there was little doubt but that the plebiscite when it came would be overwhelmingly in favour of re-union with Germany. But since the triumph of the Nazi policy in Germany, the atti-

tude of the people within the Saar has undergone a notable transformation that complicates a situation that may become acute very soon, since the fifteen year period ends in 1935 and preparations for the plebiscite will soon be on foot. The main reason for this change of attitude within the Saar is that while the population is predominantly German it is also predominantly Roman Catholic. Consequently many people in the Saar look with alarm and disapproval upon the Nazi suppression of the Roman Catholic Center party in Germany; while Socialists and Communists who are also strong in the Saar, view with equal alarm the wiping out of the Socialist-Communist party and of the trade unions within the Reich. This feeling of concern has been increased by Nazi activities in the Saar, such as the boycotting of Jews and the issuing of manifestoes directly to the Saar communal authorities, and the secret organization of Nazi Storm troops. In fact the President of the Governing Commission has complained to the Council of the League that Nazi terrorism has increased, and he charges the Nazis with organizing a disguised administration of the territory alongside the legal government represented by the Commission.

A further complication of the problem has been introduced by the proposal of Chancellor Hitler to the French Ambassador at Berlin that Germany and France settle the question of the disposition of the Saar by direct negotiation rather than wait for the holding of the plebiscite as provided by the Peace Treaty. He pointed out that it was a foregone conclusion that the plebiscite would favour re-union with Germany, and therefore that it was better to avoid the campaign preliminary to the plebiscite which was sure to leave bitter feeling on the part of the defeated side, by recourse to direct negotiations between the two countries. The French government, however, rejected Hitler's suggestion, and thus far has held to the exact letter of the Treaty; partly because France is opposed on principle to any departure from the Peace Treaties, and partly because she sees in the present disturbed situation within the Saar the possibility of getting a little more of what she had hoped to obtain in 1918, and the valuable coal fields of the Saar to boot. Obviously the Saar problem contains some dangerous possibilities, and there will be cause for thankfulness in many quarters when the question is finally settled.

LEGAL COMMENT

C. C. CARROTHERS, B.A., LL.B.

Bill 51, 1934, and the British North America Act, 1867

PROBABLY before these words meet the eye of the reader, Bill 51—an act to improve the methods and practices of marketing of natural products in Canada and in export trade, and to make further provision in connection therewith—will have been enacted by Parliament. And whatever the political results may be, nothing is more certain, than that once more those sections of the British North America Act involving the limits of the interlacing provincial and federal jurisdiction will be submitted to the judicial committee of the Privy Council for its interpretation.

Having been invited to express our views on the validity of the bill (presuming it is enacted substantially as presented to the house on March 26, 1934) we do so with some misgivings. We are mindful of the fact that while Mr. Bennett was forcefully positive of its validity, Mr. King was no less certain in his thundering denunciation of the measure as being *ultra vires*. This in itself, of course, is disconcerting to a student of constitutional law. But we are further reminded of the fact that the appeal courts of the various provinces as well as the Supreme Court of Canada have shown a singular inability to show anything like a unanimity of opinion on such vital questions. In a case submitted to the Supreme Court of Canada in 1916, under the name of Attorney-General for the Province of Ontario *versus* Attorney-General for the Dominion of Canada, a strong court so disagreed on their opinions on 7 questions submitted for answer that the court was unable to give judgment.

But if it is impossible to assert or deny the validity of the bill with any certainty, we can at least discern a general trend in the Privy Council decision on somewhat similar difficulties.

The problem resolves itself into the question whether or not the bill infringes on the rights of the Provinces under the British North America Act. By Section 92, clause 13, each Provincial legislature is given exclusive law making jurisdiction in relation to property and civil rights in the Province. It is the delimitation of this power that

has caused more difficulty than any other of the enumerated powers in the Act.

The purpose of the Bill is, briefly, the setting up of a board to regulate the marketing of certain natural and manufactured products. The powers of the board include the fixing of the time and place of marketing; the quality and grade to be marketed; the prohibition of marketing; the amalgamation of federal prove boards and the extension of powers of provincial boards. Coupled with these provisions the bill endows certain committees with wide powers for the investigation of price spreads. It is, of course, obvious that these provisions must interfere to a greater or lesser degree with the jurisdiction of the Province over property and civil rights. The crux of the matter is the determination of the extent to which such rights may be interfered with by federal legislation.

The legislative justification for the bill must be found in Section 91 of the British North America Act, in which are enumerated the legislative powers of the Dominion. In this section we find in the preamble the power given to the federal government to make laws for the "peace, order and good government of Canada." We find further in subsection 2 the right to legislate for the "regulation of trade and commerce." It is to either of these that Parliament must look to provide its authority for the bill under consideration.

Manifestly, powers such as these must cover a large field of possible legislation—and legislation which of necessity must conflict with property and civil rights. To the Privy Council, the final interpretive authority, we must turn for an indication of the limit of the general powers thus conferred on Parliament.

In the earliest leading case, Citizens Insurance Co. *versus* Parsons[1] the result of their Lordships' decision was "Regulation of trade and commerce means general regulations as applicable to trade generally, or what may be called, for want of a better word, a political character, that is for regulating trade and commerce between the Dominion and foreign countries, including of course, Great Britain, or, for instance, for regulating the trade between the provinces themselves. But it does not include minute regulations affecting the terms and conditions on which persons carrying on particular trades are to be allowed to do so in different localities."[2]

1. 7 App. case at P. 112.
2. Lord Davey in the matter of the Dominion Liquor License Act, P. 134, Martin and Meredith's notes.

In a later case Lord Watson observed "I do not think any case affords a definition, or anything like a precise definition, of what precisely is meant by the expression 'regulation of trade' in subsection 2 of Section 91. There are explanations of it, but the explanations as far as I can find, require as much explanation as the section itself."[1]

Following these cases, through a long series of liquor traffic cases the extent to which the term "regulation of trade and commerce" could be relied upon as a basis for Dominion legislation, was a constant matter of discussion, with no satisfactory results.

In 1915, however, began a more modern series of cases from which it becomes possible to derive definite principles by which the Privy Council is guiding itself in these matters.

Lord Haldane in John Deering Plow Co. *versus* Wharton[2] after paying his respects to the Parsons decision[3] says, speaking of "the regulation of trade and commerce"; "This head must, like the expression 'property and civil rights in the province' in Section 92, receive a limited interpretation. Their Lordships think that the power to regulate trade and commerce at all events enables the Parliament of Canada to prescribe to what extent the powers of companies, the subjects of which extend to the entire Dominion should be exercisable, and what limitations should be placed on such powers."

The following year a much more pregnant decision was rendered in Attorney-General for Alberta *versus* Attorney-General for Canada, known as the Insurance Reference.[4] This case followed an attempt by the Dominion to enact as part of the Insurance Act, 1910, a section which in effect undertook to prohibit insurance in Canada except under federal supervision and license. Their Lordships held such enactment *ultra vires* since the authority of Section 91, subsection 2, to legislate for the regulation of trade and commerce does not extend to the regulation by a licensing system to a particular trade in which Canadians would otherwise be free to engage in the provinces, since and it could not be enacted under the general power conferred in Section 91 to legislate for the peace, order and good government of Canada as it trenched upon the legislative authority conferred on the provinces by Section 92, subsection 13 re civil rights.

One or two extracts from the judgment of Viscount Haldane are

1. Ibid, P. 210.
2. 1915 A.C. 330.
3. Supra.
4. 1916 A.C. 588.

worth noting: "It must be taken to be now settled that the general authority to make laws for the peace, order and good government of Canada, which the initial part of Section 91 of the British North America Act confers, does not, unless the subject matter of the legislation falls within some one of the enumerated heads which follows, enable the Dominion Parliament to trench on the subject matters entrusted to the Provincial legislatures by the enumeration of Section 92," and further: "their Lordships think that it must now be taken that the authority to legislate for the regulation of trade and commerce does not extend to the regulation by a licensing system of a particular trade in which Canadians would otherwise be free to engage in the provinces. The statute under consideration cannot be justified under this head. No doubt the business of insurance is a very important one which has attained to great dimensions in Canada. But this is equally true of other highly important and extensive forms of business in Canada which are today freely transacted under provincial authority. Where the British North America Act has taken such forms of business out of provincial jurisdiction as in the case of banking, it has done so by express words which would have been unnecessary had the argument. . . . . used in this case been well founded.

This decision would appear to have disposed of the possible contention that the Marketing Bill with which we are concerned might be considered to be authorized by the preamble to Section 91 dealing with "peace, order and good government," or by the "regulation of trade and commerce" in Subsection 2 of that section. A very recent decision, however, in re The Board of Commerce Act, 1919, and the Combines and Fair Prices Act, 1919[1] which came before their Lordships by way of a stated case in 1921 provides some further difficulties.

The Combines and Fair Prices Act, enacted by the Parliament of Canada in 1919, authorized the Board of Commerce, created by another statute of that year, to restrain and prohibit the formation and operation of such trade combinations for production and distribution in the Provinces as that Board might consider to be detrimental to the public interest; the Board might also restrict accumulation of food, clothing, and fuel beyond the amount reasonably required, in the case of a private person for his household, and in the case of a trader for his business, and require the surplus to be offered for sale at fair prices;

1. 1922 A.C. 191.

and the Board could attach criminal consequences to any breach of the Act which it determined to be improper:—
HELD, that the Acts were *ultra vires* the Dominion Legislature, since they interfered seriously with "property and civil rights in the Provinces," a subject reserved exclusively to the Provincial Legislatures by Section 92, head 2, of the British North America Act, 1867, and were not passed in any highly exceptional circumstances, such as war or famine, which conceivably might render trade combinations and hoarding subjects outside the heads of Section 92 and within the general power given by Section 91. The power of the Dominion Legislature to pass the Acts in question was not aided by Section 91, head 2 (trade and commerce), since they were not within the general power; nor by Section 91, head 27 (the criminal law), because the matter did not by its nature belong to the domain of criminal jurisprudence.

Viscount Haldane again delivered the judgment which included these dicta: "The first question to be answered is whether the Dominion Parliament could validly enact such a law. Their Lordships observe that the law is not one enacted to meet special conditions in wartime. It was passed in 1919, after peace had been declared, and it is not confined to any temporary purpose, but is to continue without limit in time, and to apply throughout Canada. No doubt the initial words of Section 91 of the British North America Act confer on the Parliament of Canada power to deal with subjects which concern the Dominion generally, provided that they are not withheld from the powers of that Parliament to legislate, by any of the express heads in Section 92, untrammelled by the enumeration of special heads in Section 91. It may well be that the subjects of undue combinations and hoarding are matters in which the Dominion has a great practical interest. In special circumstances, such as those of a great war, such an interest might conceivably become of such paramount and overriding importance as to amount to what lies outside the heads in Section 92, and is not covered by them. The decision in Russell *versus* The Queen[1] appears to recognize this as constitutionally possible even in time of peace; but it is quite another matter to say that under normal circumstances general Canadian policy can justify interference, on such a scale as the statutes in controversy involve, with the property and civil rights of the inhabitants of the Provinces. It is to the Legislatures of the Provinces that the regulations and restriction of their civil rights have in general been exclusively confided, and as to these, the Provincial

1. 1882 7 A.C. 829.

Legislatures possess quasi-sovereign authority. It can, therefore, be only under necessity in highly exceptional circumstances, such as cannot be assumed to exist in the present case, that the liberty of the inhabitants of the Provinces may be restricted by the Parliament of Canada, and that the Dominion can intervene in the interests of Canada as a whole in questions such as the present one. For normally, the subject-matter to be dealt with in the case would be one falling within Section 92. Nor do the words in Section 91, the "Regulation of trade and commerce," if taken by themselves, assist the present Dominion contention. It may well be, if the Parliament of Canada had, by reason of an altogether exceptional situation, capacity to interfere, that these words would apply so as to enable that Parliament to oust the exclusive character of the Provincial powers under Section 92."

One more point may be noticed. By Section 4 of the Marketing Bill, the Board established under its provisions has certain powers prohibiting trade in some products at its discretion. Nothing appears more clear than this provision cannot be within the "regulation of trade and commerce." It is trite law to say that the right to regulate does not include the right to prohibit. In Attorney-General of Ontario *versus* Attorney-General of Canada[1] Lord Watson observes in holding certain prohibitory regulations *ultra vires*.

"A power to regulate, naturally, if not necessarily, assumes, unless it is enlarged by the context, the conservation of the thing which is to be made the subject of regulation. Their Lordships think there is a marked distinction to be drawn between the prohibition or prevention of a trade and the regulation or government of it, and indeed a power to regulate and govern seems to imply the continued existence of that which is to be regulated or governed."

Having regard then for the trend of the various opinions and dicta of the Privy Council it would appear that the main purpose of the Marketing Bill can hardly be justified under Section 91, subsection 2. It may well be, however, that when it is submitted to their Lordships, it may be justified under the preamble to that section on the abnormality of the circumstances under which it is enacted. In the words of Viscount Haldane, "the peace, order and good government of Canada may be imperilled under conditions so exceptional that they require legislation of a character in reality beyond anything provided for by the enumerated heads in either Section 92 or Section 91 itself."[2]

1. 1896 A.C. 348
2. 1922 A.C. 191.

NEW POLICY PROBLEMS IN INDUSTRIAL RELATIONS

GERALD C. WHITE

DURING the present kaleidoscopic transition, the element of uncertainty concerning the future trends of many phases of industrial relations is so great that attempts to determine the most suitable permanent policies must be largely a matter of guesswork. It is evident that a marked improvement in the standard of living of the working classes is imminent but, as yet, there is little to show by what means this improvement will be brought about. It is the uncertainty concerning the means of improvement that makes the problem difficult. To understand fully the difficulties it is necessary to consider certain fundamental principles upon which economic reconstruction must be based.

William Trufant Foster, director of the Pollak Foundation for Economic Research, writes "We should endeavour to see to it that the flow of purchasing power to consumers is such that their buying power exactly keeps pace with the production of consumers' goods."[1] Few economists will disagree with the general principles of this formula for economic equilibrium. Concerning the method by which this desirable state of affairs is to be brought about there is a fund of disagreement. Today we have a disequilibrium in which the flow of purchasing power to the consumer is insufficient to purchase the capacity output of our tools of production. Now it is possible that economic equilibrium could be restored by liquidating excess tools of production until the production of consumers' goods decreased to a point compatible with purchasing power. But, when it is remembered that one of these excess tools of production is idle man power, this method becomes unacceptable. The alternative is to increase the flow of purchasing power to consumers until a demand for consumers' goods is created that will utilize completely the tools of production and finally eliminate

1. "Economic Consequences of the New Deal," Atlantic Monthly, December, 1933.

unemployment. We know that it is towards this end that the national administrations of most countries are aiming. We do not know, especially in Canada, what means are finally to be taken to reach this end. Wage earners and farmers are the most important potential consumers towards whom purchasing power can be directed. There are also the unemployed; but, as economic equilibrium approaches, unemployment will decrease and this class will become less important. There are many viewpoints concerning the most suitable methods of directing purchasing power towards these classes. On one extreme there is the "laissez-faire" viewpoint. It is possible that, given sufficient time, economic forces would overcome the various obstacles to "laissez-faire" and restore equilibrium, but, after four years of depression, we are too tired of waiting to place our hopes solely on this form of reconstruction. On the other extreme is the socialistic viewpoint—ownership and control by government. There are many people in Canada and the United States who favour socialism, but public opinion seems to be so overwhelmingly against it that, at least for the immediate future, we may leave it out of consideration. We may anticipate the evolution of a method that will be a mean between the extremes of "laissez-faire" and socialism.

By examining the most probable methods of directing purchasing power towards the working classes—which is an indirect means of directing it towards the farmers—and by considering the influence of certain social and economic trends, we may clarify somewhat our policy problems.

There are three distinct institutions, each of which might attain a position of authority that would enable it to assume the responsibility of maintaining an adequate flow of purchasing power to working classes. They are the government, organized capital and organized labour. Today the responsibility seems to be divided among them and they all lack either legal authority or suitable organization to accept this responsibility in full. We shall attempt to trace briefly the method by which each of these institutions might independently function to control the purchasing power of the working classes, and the influence this method would have on industrial relations. The methods we will consider are extreme ones. Actual evolution may be expected to be a compromise between these extremes. It is by examining the possible extremes that we hope to obtain an insight into the probable compromises.

The Government as an Instrument to Restore Purchasing Power

Much has been written recently concerning monetary reform and it seems fairly well established that a country having the economic basis of an autarchy can, by making certain radical changes in monetary policy, safely restore purchasing power by adequate government expenditure financed by a combination of internal borrowing, currency expansion and credit expansion. To elaborate on the theory and technique of this method would be irrelevant to our subject. It is sufficient to mention that it would culminate in a system of purchasing power control based chiefly on money management, that elements of it have already been introduced in many countries, and that its potentialities are receiving the careful consideration of economists everywhere.

Among the first steps that would be taken by the government of a country embarking on an inflationary program of this nature is that of choosing suitable means of expenditure to rapidly place purchasing power in the hands of potential consumers. One of the most effective means would be to dispense doles to the unemployed and adequate charities to the destitute. There are strong arguments in support of such dispensation. It could serve a two-fold purpose in increasing purchasing power, in that, in addition to the direct increase caused by the expenditure of funds, it could be used as a lever to force up wages. Employers would have to pay considerably more in wages than an unemployed worker would receive in the form of a dole. Consequently, the government, by gradually increasing the amount of the dole, could slowly force up wages to a point compatible with economic equilibrium, at which point the dole payments would be negligible for unemployment would virtually end. Another argument in favour of doles and charities is that they would serve as a social insurance against the enormous wastes of human energy that are directly traceable to man power.

Legislation granting to government the authority to increase or decrease both the minimum wages payable to workers, and the maximum hours of labour, would make available to government another means of controlling workers' purchasing power. Laws pertaining to minimum wages and maximum working hours have been in existence for many years, introduced with the object of alleviating social evils in the industial system. It is a comparatively recent viewpoint to consider them as a means of purchasing power control. In an inflationary program such as we are considering, legislation of this nature would serve in

conjunction with, or as an alternative to a dole to the unemployed as a means of regulating wage levels.

Increasing government expenditure through channels such as public works, industrial loans to foster the domestic production of goods previously imported, subsidies to farmers, education and research could also be used to increase consumers' purchasing power.

The adoption of any policy whereby government would aim to control workers' purchasing power would have an important influence on industrial relations. Let us consider the effect on employee insurance and pension schemes. Today, these schemes are useful instruments of management in obtaining the loyalty of employees and in minimizing labour turnover. They are useful instruments largely because they give to the worker and his dependents a measure of security from poverty. Should the worker receive this security by government provision he would be less reluctant to change his job even if it meant the sacrifice of the full benefits of his paid-up insurance. In part, if not entirely, the advantages of insurance and pension schemes would be lost to management. Unemployment insurance would be rendered superfluous because the government would assume full responsibility for paying an adequate dole to the unemployed. Sickness, accident and life insurance and old age pension schemes would be rendered much less effective by government charities. Management might be well-advised to consider carefully this possible trend before planning capital outlays in these fields of industrial relations. Another important effect of a policy of this nature would be the influence it would have on trade unionism. It would tend to remove the responsibility of assuring an adequate distribution of wealth to workers from the hands of organized labour, and to place it in the hands of government. The rights of labour in this respect would be protected without the need of collective bargaining. A similar situation has developed under fascism. Its effect is that strikes tend to become outlawed and the incentive for unionization is lessened.

Organized Capital as an Instrument to Restore Purchasing Power

A gradually changing viewpoint is noticeable among industrial and financial leaders. They are recognizing the fallacy of over-emphasizing the importance of foreign trade revival as a stimulus to recovery. A full realization of the character of the problem is bringing into prominence the fundamental truth that, by increasing the standard of living

at home, domestic markets for all but a very few commodities can be increased almost without limit. Ways and means are being explored to initiate this process safely, but industry and finance have been prone to place the burden of responsibility on government. The traditions of competition and trade rivalry have prevented one industry from acting independently of industry as a whole. Only an exceptionally efficient company such as the Ford Motor Company can independently increase wages without fear of disastrous competitive disadvantages. Collective action by employers to increase wages with the objective of increasing markets has been impossible because, as yet, too few employers are willing to accept the point of view that such a procedure would be to their ultimate advantage.[1] It is largely because of this reactionary attitude that capitalism is suffering a loss of prestige that threatens its very existence. In the United States codification under the N.I.R.A. is a heroic effort on the part of government to interpret to capital the significance of the New Era, to point out to capital a means of collective action whereby domestic markets can be increased to keep pace with the increasing productivity of the modern machine. Capital is suspicious of this effort, presumably because of the political implications involved. Its success is doubtful. But, should its propaganda be effective in causing capital to organize independently of government with objectives similar to those of the N.I.R.A., capital would not only be advantageously placed to regain its lost prestige, but to entrench itself in a more powerful position than ever before.

Could we be assured that this development would take place, the policy problems of management in industrial relations would be comparatively simple. With the exception of wage policies, the theory underlying practices in industrial relations would remain precisely the same as it is today. Consequently the practices that have been developed in recent years could be refined and expanded without any radical departure from the general principles already established. Employee insurance and pensions would continue to be of value to management in obtaining the loyalty of employees and in minimizing labour turnover. The relations between capital and labour in respect to collective bargaining and employee representation would remain similar in principle, although in practice, possibly, less troublesome to management, for it

1. Higher manufacturing costs due to increased wages, providing they are accompanied by increased markets, are largely compensated for by decreased selling costs and decreased overhead expense due to a larger turnover.

could be expected that organized labour would be appeased by a constantly improving standard of living among the working classes. Moreover, as capitalism would once more become a definitely constructive institution, the weight of public opinion would support it.

Organized Labour as an Instrument to Restore Purchasing Power

Rexwell Tugwell, of the Roosevelt "Brain Trust," in his book "The Industrial Discipline" writes: "Trade Unionism . . . .. has asked for nothing better than larger bribes for greater degradation." He points out that organized labour has considered labour as a commodity to be sold by a process of bargaining to the highest bidder. Today an effort is being made to introduce a more ambitious objective in the ranks of labour. More is being heard about industrial democracy, about a partnership between capital and labour, in which labour will have a voice in policy, in which the forces of both capital and labour will work towards a common end, confident that both will be justly served as they work for the whole. This trend seems to be supported by the Roosevelt administration. Section 7a of the N.I.R.A. gives employees "the right to organize and bargain collectively through representatives of their own choosing." The proposed Wagner Bill, which aims to outlaw company unions and to encourage unionization on a national basis, will, if passed, be a forerunner of a solidarity of labour heretofore undreamed of. Although the exact legal interpretation of section 7a has not yet been determined and the Wagner Bill has not passed, the significance of these measures is important. If they should give to labour the degree of power that is implied, organized labour, by the authority of the power to strike, would be in a position to demand a voice in industrial administration, to determine wage levels and, in the last analysis, to accept the responsibility of maintaining a flow of purchasing power to consumers consistent with economic equilibrium.

Should this development come in the United States, its effect in Canada is difficult to foretell. It is extremely improbable that Canada, so predominantly an agricultural country, would be willing to place so much power in the hands of organized labour. Nevertheless, because of the close affiliation of trade unionism in Canada and the United States the influence of "liberated" United States labour could not fail to have a far-reaching effect in this country. Canadian labour would be in a strong position to demand reforms moulded on the United States pattern.

We shall make no attempt to trace the possible patterns that might

be developed in connection with various welfare schemes. That radical changes might be anticipated is obvious. A powerful impetus to standardize all welfare work after one pattern would be the result of an inevitable agitation for an adequate minimum degree of economic security and comfort for all working classes. A desire to place the burden of expense of social insurance of all kinds on government rather than on industry would lead to legislation directed towards that end. As in the first case we considered, many of the contemporary welfare schemes would become obsolete and of little advantage to management.

Any developments that will give to labour a sufficient degree of solidarity to enable nationally or internationally organized labour to demand a voice in management will necessarily bring with them a complete change in matters pertaining to employee representation and union recognition. Whether such a change would be advantageous to industry as a whole is a moot question. The present attitude of management seems to be overwhelmingly opposed to such a development. In the United States the attitude of Mr. William S. Knudsen of the General Motors Corporation, and that of Mr. Ernest Weir of the Weirton Steel Company may be taken as typical. These gentlemen are strongly opposed to the impetus that is being given to national labour solidarity and are attempting to combat it by the strengthening of company unions. In other industries new company unions are being formed for the same purpose. These company unions are being formed apparently in the hope of impeding labour organization on a national basis. How successful they will be remains to be seen. The attitude of management in Canada is also predominantly in favour of company unions as opposed to craft, national and international unions. Only future developments will show whether or not this attitude is justified. At present the questions of policy concerning employee representation and union recognition are troublesome ones and will remain so until we have a clearer idea of what new developments are going to be.

Implications of the "New Deal" in the United States

The recovery program in the United States has, either by accident or design, left the way clear for any one of the three institutions we have considered to take the initiative in restoring purchasing power. While the government is forcing the issue at present, it would be quite possible, should either capital or labour or a combination of the two assume the responsibility of maintaining an economic equilibrium, for the govern-

ment again to restrict its activities in internal affairs to the orthodox functions of government under the principles of *laissez-faire*. The emergency powers granted to the president under the N.I.R.A. are for two years at the most. Is it to be expected, before this period expires, that in the ranks of both capital and labour a viewpoint will have developed that will permit organization and co-operation for the common good? Is it to be expected that individual capitalists will realize that they can best serve themselves by co-operating with each other to control wages and working hours in a manner calculated to be most constructive for the nation as a whole? Is it to be expected that organized labour will enter into some sort of partnership with capital whereby the worker will be assured of a compensation commensurate with the contemporary national capacity of production, and whereby organized labour will direct its efforts towards making all labour more productive, rather than towards obtaining greater rewards from capital? Such a rapid change in tradition and habit of thought is a great deal to hope for within such a short period of time. It seems much more probable that the United States Administration will be forced to find a way to continue its so-called socialistic activities long after the two year period has elapsed. As yet, however, it is too early to attempt to predict what the status of government, capital, and labour will be when stabilization eventually emerges from the American experiment.

Probable Trends in Canada

Should recovery rapidly gain momentum in the United States and elsewhere it is quite possible that economic equilibrium will come to Canada without the need of extreme legislative or administrative measures of government. It would appear that the Canadian Government has taken a position based on this theory for, with the exception of such proposals as Mr. Bennett's "modest program of public works," and the heralded natural products marketing act, the "wait and see" policy is apparently favoured. Canadian business has been greatly stimulated by the recovery program in the United States and by other forces that are foreign in their origin. If we were to discount the stimulation that has been given to business by such forces as world gold prices, export trade, and the flow of foreign capital into Canada it is doubtful whether a noticeable improvement would have occurred. These forces, while they are very important ones, are all subject to extreme variations caused by circumstances completely outside of

Canadian control. They are forces of which Canada cannot make use in attempting to control internal purchasing power. Nevertheless, they influence and will continue to influence government policy. Because today they are favourable to Canada, and because evidence indicates they will continue to be favourable for a considerable length of time, it is probable that the government will not feel obliged to take the inflationary road to recovery. It may be expected, therefore, that the initiative of providing a means of purchasing power control will be taken by either organized capital, organized labour or, perhaps, a combination of these two institutions. It may be expected that steps to organize for such control will be taken whether there is an immediate pressing need for it or not, for, in sympathy with developments in the United States, both capital and labour in Canada will recognize the advisability of protection against future disequilibrium when the forces of foreign origin may not be so favourable to Canada as they are today.

There are additional factors which point to this trend. Industrial developments in the United States have in the past been followed by similar developments in Canada. The amount of United States capital invested in Canadian industry is large and influential. For these reasons it may be anticipated that Canadian managers will continue to follow the lead of their contemporaries in the United States. That they are already doing so is shown by the voluntary wage increases that have been given by several Canadian companies with United States affiliations.

A complete awareness of all the possible trends is a valuable adjunct to management. A drastic change in industrial relations must be expected, but the time or the exact nature of this change cannot yet be determined. It appears, however, that industrial management in Canada is in the advantageous position of being able to adopt a more or less neutral policy until the future trends can be more accurately traced, thereby avoiding the errors and expense inevitably associated with experimentation.

THE FIRST YEAR OF ROOSEVELT

GEORGE W. COLEMAN, PH.D.

TWENTIETH-CENTURY battles are fought upon economic fields. Race, religion and political habits play a minor part. They are only the masks behind which the contestants carry on the battle. Always in the past the producer and distributor have provided the sinews of conflicts. Now they are the main contention in and of themselves.

While Europe is fast moving into dictatorships and the Orient is suffering from growing pains, the United States of America is engaging in a desperate battle on the field of economics. While the United States has led the world in economic development she has been slower than others in finding her way out of the general depression which has engulfed the world. She has been in the doldrums almost five years but did nothing much about it until a little more than a year ago.

Millions who supported the Republican candidate in the last presidential election have been profoundly thankful that his Democratic rival was elected. Still more millions are inclined to believe that the choice of Roosevelt as a standard bearer in the present situation was the happiest political event in the country since the election of Abraham Lincoln. The first year under the new administration has put flexible intelligence in the place of inflexible traditions as Glenn Frank so aptly puts it.

The depression, President Roosevelt, and his recovery and reform measures, whatever else they have done, have brought about in the people of the United States an awakening of the spirit, a challenge to the mind and a willingness to go forward. The amazing tolerance, good will and active support given the President in the face of the most unprecedented official actions finds its counterpart and endorsement in the attitude of public opinion in Europe. Everywhere, outside of the ranks of professional partisans in all parties, he is supported by a great body of eager and friendly watchers. Lloyd George, lunching very recently with an American business man, plied him vigorously with an

array of questions revealing a wide range of detailed knowledge and a sympathetic understanding of what the Administration is trying to do.

President Roosevelt has had to build a bridge across a threatening chasm leading from a state of economic chaos to a promised land of order and fair play. Over this bridge he has had to drive a span not easily hitched together—Recovery and Reform—and either one anxious but unable to pull the load alone. And the bridge wasn't wide enough to allow for much careening.

The reader is familiar with the broad outlines of the specific measures which have been adopted to carry out the President's program. To enumerate them by title alone calls for a raid on the alphabet. The end and aim of all of them taken together is to redistribute jobs as well as wealth, to save economic life from anarchy, to safeguard the profit incentive, to adjust the machinery of life that was built for an era of economic scarcity so that it can work in an era of economic abundance. These are the long distance goals. Shortening hours, increasing wages, raising prices, managing credit and currency, relieving financiers, industrialists, and railroad executives, succouring home-owners, bolstering up the farmers, jockeying tariffs, making jobs where there weren't any, co-ordinating the economic life of a wide-stretching Tennessee Valley, all these activities and many others are but detail measures looking toward the promised land of the New Deal.

No one supposes that all these plans will carry through. Even those who would not raise a finger to obstruct do not see how all these astonishing departures from the accustomed paths are going to work together to bring about the desired end. It is indeed puzzling to make out how shortened hours, increased wages, prescribed new machinery and a lower cost of living can all live together in harmony in the same house. Impoverished cities and towns, spendthrift states and a lavish Federal Government all dependent upon a taxpayer harassed on all sides present a picture not altogether consoling. It will be remarkable if half of the plans now in operation work out to their expected fulfilment.

And it needs only a little more evidence of returning prosperity to bring out of their hiding places hordes of critics who will "yell their heads off" for a return of the *laissez-faire* policy. Until now partisan critics have been like voices crying in the wilderness. As soon as they uttered their criticisms an overwhelming public opinion smothered them. The rank and file voter has not been thinking of party politics and the

usual political game has been in the discard. All have been absorbed in a united battle against economic depression.

When Mr. Roosevelt first took command he went into action at once, satisfying the public eagerness to have something done. Immediately he gave evidence of a facile leadership that kept his enemies at bay and won him hosts of friends in every direction. He soon showed himself to be a pastmaster in the realm of human relationships, a talent that he early displayed in his college days at Harvard. This was quickly manifested in his masterly management of the heterogeneous forces within his own party. His previous experience in his home state had given him a perfect understanding of practical politics.

For more than a year now Mr. Roosevelt has been under a strain that would tax the physical stamina of the most rugged man. He has carried these overwhelming burdens and supreme responsibilities with a serenity and poise that has amazed us all. He can enjoy a Florida vacation while Congress is administering its first serious rebuff in carrying the pension bill over his veto. His serene and modest self-confidence and his undaunted courage have brought a personal popularity that has survived every vicissitude and when his voice enters every home in the land explaining his policies and program he gets a whole-hearted response. Notwithstanding the fact that he has broken out new paths in every direction and has gone counter to life-long economic and political prejudices, his tremendous popularity has survived undimmed. He truly employs a flexible intelligence rather than follows inflexible traditions.

BOOK REVIEWS

THE NEW CAPITALISM *by James D. Mooney.*

Price $4.00, 229 pages, Macmillan, Toronto.

THIS book is the reaction of one of America's industrial leaders to the governmental attempt at a managed recovery. Attention centres particularly on an effort being made at controlling prices. One wonders why it should bear the title that it does. Its practical message consists of an unqualified call for a return to a *laissez-faire*, hard-money, technically-efficient economy. Attempts by governments to increase wages and prices and especially to "underwrite increases in wages" are roundly condemned. Emphasis should be placed on getting real (gold) prices down through lowering costs rather than upon artificially stimulating wages. This would increase workers' real income. Increased wages are justifiable only to the degree that they are accompanied by increased workers' output, and movements like the six-hour day and thirty-hour week and distributing the work over larger numbers are all condemned as "economic nostrums," calculated only to increase costs. Even for the farmer, the way to better living is through efficient production and lowered costs. Emphasis should be placed on lessening his taxes, cheapening the costs of his tools and machinery, widening his markets through freer trading rather than upon any curtailment of his acreage or output.

Much space is given to an attempt to prove by means of an analogy drawn from hydraulics, the fallacy of ever achieving prosperity and higher living standards by forcing up prices through inflation of any kind. This is the distinctive and unfortunately the least satisfactory part of the book. Carrying the analogy through some thirty-five full-page coloured charts, the author seeks to show that an increase in the proportion of currency and credit to the amount of gold, in what he calls "the total monetary solution," will cause real (gold) prices to go down. The way to get real prices up is rather to inject more gold into the currency solution. An ingenious array of physical devices is employed.

The supply of a commodity pours through a controlled pipe into a vessel resting on a block of wood, while the demand leads off through a second pipe also susceptible to a changing flow. The block, with a price scale on its edge, floats in the yellow gold-currency-credit solution. Either of two things will cause a higher price reading on the wood, namely, more rapid flow through the demand outlet pipe than through the supply intake pipe, thus decreasing the weight of the commodity in the jar, *or*, an increase in the gold content and hence the specific gravity of the liquid in which the wooden block floats. The reader is then introduced to hydrometers, floats and indicators, changing temperatures (paralleling various states of business confidence) resulting in precipitation and changing saturation point, etc., etc.

While this might serve to add a touch of reality for science students accustomed to thinking in such terms, I cannot see where it is of much use in clarifying economics. To most of us it only amounts to an increased mental load. Analogy, furthermore, is always open to the danger of intriguing its creator as well as the reader into accepting as proof what is, after all, only illustration. This book is no exception. The author's assumption that increasing the gold in his currency solution is going to act altogether like an increase of salt in a salt and water solution, buoying up the weighted block to give a higher price reading in accordance with a changing specific gravity, is, to say the least, open to criticism. One wonders, moreover, in connection with some of the charts, why these are gold prices rather than prices in terms of general currency. The careful student will always do well to put the elements going into the makeup of a parallel such as this under strict criticism. Science has frequently suffered from over-free use of analogy. The book is interesting, nevertheless, as an ingenious effort to apply the instrumentalities of one science to the problems of another, and also as revealing the position of a great business man as depending still upon low costs and a full-steam-ahead program as the true way to happier times. As an imposing piece of propaganda, the volume is challenging enough; as an effort in economic theory it is worth little. The volume stands unique in the field of theory for its free use of story-telling photographs.

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